

Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 IO-11 ISO-00 AGR-05 CEA-01 CIAE-00

COME-00 DODE-00 FRB-03 H-02 INR-07 INT-05 L-03 LAB-04

NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15 STR-04

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XMB-02 /099 W

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R 091300Z FEB 76

FM AMEMBASSY SAN SALVADOR

TO SECSTATE WASHDC 256

INFO AMEMBASSY MANAGUA

AMEMBASSY PANAMA

AMEMBASSY SAN JOSE

AMEMBASSY TEGUCIGALPA

USDEL MTN GENEVA

LIMITED OFFICIAL USE SECTION 1 OF 3 SAN SALVADOR 0669

EO 11652: N/A

TAGS: ETRD MTN

SUBJ: TROPICAL PRODUCTS NEGOTIATIONS; EL SALVADOR

REF: 75 STATE 288016

1. SUMMARY WITH THE EXCEPTION OF A RELATIVELY SMALL GROUP OF PRODUCTS WHOSE IMPORTATION IS PROHIBITED (E.G., ROULETTE WHEELS) RESERVED FOR THE GOVERNMENT (E.G., MILITARY WEAPONS), OR TIGHTLY RESTRICTED (E.G., FIREARMS), VIRTUALLY ANY PRODUCT CAN BE IMPORTED INTO EL SALVADOR IF THE IMPORTER IS WILLING AND ABLE TO MASTER THE NECESSARY METHODOLOGY AND, ABOVE ALL, TO PAY THE DUTIES AND OTHER CHARGES.

ONE THE ONE HAND, IMPORTATION OF CAPITAL AND MOST INTERMEDIATE GOODS, WHICH CONSTITUTED APPROXIMATELY 85 PERCENT (BY VALUE) OF EL SALVADOR'S TOTAL IMPORTS IN 1975, INVOLVES RELATIVELY LITTLE RED

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TAPE AND IS SUBJECT TO LOW DUTIES AND OTHER CHARGES. ON THE OTHER

HAND IMPORTATION OF LUXURY AND NON-ESSENTIAL GOODS(HOWEVER DEFINED BY THE GOES) WHICH CONSTITUTED 15 PERCENT (BY VALUE) OF EL SALVADOR'S TOTAL 1975 IMPORTS, INVOLVES CONSIDERABLE RED TAPE AND RELATIVELY OEROUS, IF NOT PROHIBITIVE, DUTIES AND OTHER CHARGES. MOREOVER, IMPORTATION OF ANY PRODUCT FROM A THIRD COUNTRY WHICH IS PRODUCED BY A MEMBER COUNTRY OF THE CENTRAL AMERICAN COMMON MARKET -CACM- IN SUFFICIENT QUANTITY TO SATISFY AT LEAST 80 PERCENT OF THE CACM DEMAND FOR THAT PARTICULAR PRODUCT WILL ALSO INVOLVE CONSIDERABLE RED TAPE AND GENERALLY HIGH PROTECTIVE DUTIES. WHILE THE U.S. MARKET SHARE OF EL SALVADOR'S TOTAL 1975 IMPORTS WAS ROUGHLY 32 PERCENT (BY VALUE), THE U.S. MARKET SHARE OF LUXURY AND NONESSENTIAL IMPORTS (EXCLUDING AUTOMOBILES, IN WHICH THE U.S. IS NOT GENERALLY COMPETITIVE) WAS ESTIMATED AT 70 PERCENT. CONSEQUENTLY, THE HEAVY INCIDENCE OF TRADE RESTRICTIONS ON LUSURY AND NONESSENTIAL IMPORTS (I.E. ESSENTIALLY CONSUMER GOODS) APPEARS PARTICULARLY DETRIMENTAL TO U.S. EXPORTERS.

BEGINNING OF LIMITED OFFICIALUSE. NONETHELESS, EL SALVADOR'S ACKNOWLEDGED STATUS AS A MSA COUNTRY (IMPORTS ALL PETROLEUM), THE FACT THAT ITS TRADE RESTRICTIONS ARE BASICALLY DESIGNED TO MINIMIZE LUXURY AND/OR NONESSENTIAL IMPORTS IN ORDER TO MAXIMIZE IMPORTS OF CAPITAL GOODS, AND THE FACT THAT ITS TRADE RESTRICTIONS, FOR THE MOST PART, CARRY THE CACM SEAL OF APPROVAL (AND SUPPORT), APPEAR TO US TO CONSTITUTE A FORMIDABLE OBSTACLE TO NEGOTIATING A MEANINGFUL RELAXATION OF SALVADORAN TRADE RESTRICTIONS.

MOREOVER THE U.S. NEGOTIATING POSITION VIS A VIS EL SALVADOR IS, IN OUR VIEW, WEAKENED BY THE FACT THAT U.S. CONCESSIONS ON TROPICAL PRODUCTS IN THE MTN ARE PROBABLY NOT OF MAJOR SIGNIFICANCE TO EL SALVADOR.

THEREFORE, IN VIEW OF THE ABOVE, THE EMBASSY SUGGESTS A SELECTIVE ASSAULT ON ES'S TRADE RESTRICTION REGIME IN THE TROPICAL PRODUCTS NEGOTIATION BEGINNING WITH (A) THE PHASED ELIMINATION OR REDUCTION OF THE 100 PERCENT PRIOR IMPORT DEPOSIT REQUIREMENT; (B) ESTABLISHMENT OF AN APPEALS OFFICE WITHIN THE MINISTRY OF FINANCE WITH AUTHORITY TO ADJUDICATE ANY QUESTIONABLE CLASSIFICATION OF INDIVIDUAL PRODUCTS AS LUXURY, NONESSENTIAL OR CACM PRODUCED, AND FINALLY (C) ELIMINATION OF THE CONSULAR FEE, RESERVING ANY FRONTAL ASSULT FOR THE PARENT CACM REGIME OF PROTECTIONIST TARIFFS.
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END SUMMARY. END OF LIMITED OFFICIAL USE.

2. IN 1975 TOTAL EL SALVADORAN IMPORTS WERE VALUED AT ROUGHLY U.S. \$613 MILLION OF WHICH APPROXIMATELY 85 PERCENT OF U.S. \$521 MILLION CONSISTED OF CAPITAL AND INTERMEDIATE GOODS WITH THE REMAINING 15 PERCENT OR U.S. \$91 MILLION BEING LUXURY OR NONESSENTIAL IMPORTS, I.E., ESSENTIALLY AUTOMOBILES AND CONSUMER GOODS. THE U.S. MARKET SHARE OF TOTAL IMPORTS WAS APPROXIMATELY 32 PER CENT OR US\$196 MIL-

LION IN 1975 WHILE THE U.S. SHARE OF LUXURY OR NONESSENTIAL IMPORTS, EXCLUDING AUTOMOBILES IS ESTIMATED AT 70 PERCENT. U.S. AUTOMOBILES (\$46 MILLION IN 1975) ARE AT A CONSIDERABLE PRICE DISADVANTAGE IN EL SALVADOR VIS A VIS JAPANESE IMPORTS. THUS IN 1975 ROUGHLY US\$32 MILLION WORTH OF U.S. CONSUMER GOODS EXPORTS WERE DIRECTLY AFFECTED BY EL SALVADOR'S TRADE RESTRICTIONS.

3. THE FIRST TRADE CONSTRAINT NORMALLY ENCOUNTERED BY A U.S. FIRM EXPORTING TO EL SALVADOR IS THE COMPLEX SET OF PROCEDURES WHICH AN IMPORTER MUST MASTER (OR CIRCUMVENT) TO DETERMINE THE CHARGES TO BE ASSESSED ON THE PRODUCT HE WISHES TO IMPORT. THE INCIDENCE OF THIS PROCEDURAL NTB VARIES ACCORDING TO THE PRODUCT CATEGORY WITH LUXURY AND NON-ESSENTIAL IMPORTS CARRYING BY FAR THE HEAVIEST BURDEN. THE INCIDENCE OF THIS PROCEDURAL NTB CAN BEST BE SHOWN IN RELATION TO THE FOLLOWING SEQUENCE OF TARIFF AND NON-TARIFF TRADE RESTRICTIONS ENCOUNTERED BY SALVADORAN IMPORTERS.

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4. A COMMON EXTERNAL TARIFF (CET) WAS INITIATED IN 1960 AND IS CURRENTLY IN EFFECT FOR VIRTUALLY ALL PRODUCTS IMPORTED INTO THE CACM. THE AD VALOREM (CIF BASIS) INCIDENCE OF THE CET VARIES BY PRODUCT, BUT IN GENERAL IS RELATIVELY LOW FOR CAPITAL AND MOST INTERMEDIATE GOODS AND HIGH FOR LUXURY AND NON-ESSENTIAL GOODS AND THOSE PRODUCTS PRODUCED IN SUFFICIENT QUANTITY BY A MEMBER COUNTRY TO SATISFY THE BULD OF CACM DEMAND. THE EMBASSY BELIVES A PERSUASIVE ARGUMENT CAN BE MADE THAT THE INCIDENCE OF THE CET TENDS TO ENCOURAGE THE IMPORTATION OF CAPITAL GOODS THEREBY ENCOURAGING THE DEVELOPMENT OF CAPITAL INTENSIVE INDUSTRIES DEPENDENT ON IMPORTED INPUTS WHICH EXACERBATE AND ALREADY SERIOUS UNEMPLOYMENT AND UNDEREMPLOYMENT PROBLEM. THIS BEING THE CASE, THE ARGUMENT GOES ON TO RECOMMEND RESTRUCTURING OF THE CET COUPLED WITH AN APPROPRIATE CURRENCY DEPRECIATION TO ACHIEVE A MORE OPTIMUM ALLOCATION OF RESOURCES OVER THE MID TO LONG TERM.
COMMENT: IN THE CASE OF EL SALVADOR ANY EFFORT TO ELIMINATE THE LIMITED OFFICIAL USE

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CET WOULD PROBABLY BE UNDERCUT BY PRIVATE VESTED INTERESTS. THE GOES AND THE LOCAL BUSINESS COMMUNITY HAVE TENDED TO SHY AWAY FROM THE NOTION OF DEVALUING THE COLON WITH RESPECT TO THE DOLLAR, ALTHOUGH IT CAN BE ARGUED THAT IT IS NOT IN EL SALVADOR'S INTEREST TO MAINTAIN THE LINK WITH THE DOLLAR. BASIC REASONS FOR THIS RELUCTANCE ARE THE LONG TERM "STABILITY" OF THE COLON AND THE GOVERNMENT'S FEAR OF THE EFFECTS ON BUSINESS CONFIDENCE OF BREAKING WITH THIS TRADITION. HOWEVER, DISCUSSIONS OF THE POSSIBILITY HAVE BEEN CARRIED OUT WITHIN THE GOES.

5. IN ADDITION TO THE AD VALOREM CET, EL SALVADOR IMPOSES A CACM-WIDE SPECIFIC DUTY ON GROSS WEIGHT (DEFINED AS THE WEIGHT OF THE PACKED PRODUCT) OF AN IMPORT VARYING FROM \$0.01. PER KILO ON UNGROUND OATS TO \$12.00 PER KILO ON OUTER-WEAR OF NATURAL SILK OR SYNTHETIC FIBERS. NORMALLY A GROSS WEIGHT DUTY IS NOT CHARGED ON IMPORTS OF CAPITAL AND INTERMEDIATE GOODS.

6. A SURCHARGE (ECONOMIC STABILIZATION DUTY)INITIATED IN 1968 AT THE CACM LEVEL IS IMPOSED ON ALL IMPORTS EXCEPT LIVE CATTLE, BASIC FOOD PRODUCTS, PETROLEUM PRODUCTS(GASOLINE, KERO-SINE, LUBRICATING OILS) FERTILIZERS, INSECTICIDES, MEDICINES, MEDICAL/HOSPITAL EQIPMENT, INDUSTRIAL AND AGRICULTURAL MACHINERY, GOLD AND SILVER, BUSES, TRUCKS AND JEEPS AND OTHER SIMILAR BASIC OR ESSENTIAL PRODUCTS, WHICH IS EQUIVALENT TO 30 PERCENT OF THE ASSESSED VALUE OF THE CET PLUS THE GROSS KILY DUTY.

7. IN 1974 EL SALVADOR IMPOSED SELECTIVE IMPORT DUTIES (IN THEORY MATCHED BY EQUIVALENT SALES TAXES ON THE SAME PRODUCTS PRODUCED DOMESTICALLY) ON LUXURY AND NON-ESSENTIAL IMPORTS. THE INCIDENCE OF THE SELECTIVE IMPORT DUTY RANGES FROM 10 PERCENT AD VALOREM (CIF BASIS) ON CERTAIN FOOD AND TEXTILE PRODUCTS;

20 PERCENT AD VALOREM FOR COSMETICS, PHONOGRAHPS, TAPE RECORDERS AND JEWELRY; AND 30 PERCENT AD VALOREM FOR CERTAIN FISH (COD, SARDINES AND SALMON) AND FISH PRODUCTS, FINE AND COSTUME JEWELRY, ELECTRIC DOMESTIC APPLIANCES, WATCHES, LUSURY PHONOGRAHPS AND TAPE RECORDERS. THE AD VALOREM INCIDENCE OF THE SELECTIVE IMPORT DUTY IS ASSESSED ON THE TOTAL OF THE CIF INVOICE VALUE PLUS THE APPROPRIATE CET PLUS THE GROSS WEIGHT DUTY.

8. AUTOMOBILE IMPORTS, A SPECIAL CASE, ARE SUBJECT TO AN AD VALOREM CET, THE 30 PERCENT SURCAHRGE, A SELECTIVE IMPORT DUTY LIMITED OFFICIAL USE

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(RANGING FROM 5 TO 25 PERCENT AD VALOREM) AS WELL AS \$0.10 ON EACH CUBIC CENTIMETER FOR ENGINES UP TO 1.500 CUBIC CENTEMETERS AND A \$0.15 DUTY ON EACH CUBIC CENTIMETER FOR ENGINES OVER 1.500 CUBIC CENTIMETERS.

9. ON TOP OF THE AFOREMENTIONED CHARGES,A 100 PERCENT ADVANCE IMPORT DEPOSIT IS REQUIRED FOR LUXURY AND NON-ESSENTIAL IMPORTS, INCLUDING FINE FOOD PRODUCTS, ALCOHOLIC AND NON-ALCHOLIC BEVERAGES, TOBACCO PRODUCTS, COSEMTICS, PICK-UPS AND PASSENGER VEHICLES, JEWELRY, WATCHES, CLOTHING, NON-DURABLE CONSUMER ARTICLES, TABLEWARE, DECORATIVE ARTICLES, MUSICAL INSTRUMENTS, FURNITURE AND FURNISHINGS, ELECTRIC HOME APPLIANCES, BOATS,AND MARINE MOTORS. ONE HUNDRED PERCENT OF THE CIF VALUE OF THE PRODUCTS MENTIONED ABOVE MUST BE DEPOSITED BY IMPORTERS WITH THE CENTRAL BANK OF EL SALVADOR PRIOR TO IMPORTING SUCH ARTICLES. THE DEPOSITED AMOUNT IS RETURNED BY THE BANK TO THE IMPORTER (WITH NO INTEREST) AFTER THE IMPORTER PROVES THAT THE MERCHANDISE HAS BEEN PAID FOR.

10.. IN APRIL 1975 THE GOES ELIMINATED THE REQUIREMENT OF HAVING AN EL SALVADOR CONSULAR VISA STAMPED ON COMMERCIAL INVOICES, BILLS OF LADING, AND OR AIRWAY BILLS ON PRODUCTS TO BE IMPORTED INTO EL SALVADOR. HOWEVER,A CONSULAR FEE MUST NOW BE PAID BY THE EL SALVADOR IMPORTER WHICH, LIKE THE ORIGINAL, RANGES FOR \$1.00 TO A MAXIMUM OF \$30.00. IN OTHER WORDS, THE CONSULAR FEE WAS NOMINALLY SHIFTED FROM THE FOREIGN EXPORTER TO THE LOCAL IMPORTER.

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11. WHILE LOCAL IMPORTERS INDICATE THAT THEY ARE GENERALLY SYMPATHETIC TO THE GOES'S EFFORTS TO LIMIT LUXURY AND NON-ESSENTIAL IMPORTS AND IMPORTS FROM THIRD COUNTRIES WHICH ARE ALREADY BEING PRODUCED WITHIN THE CACM, THE TENDENCY TO DESIGNATE BROAD PRODUCT CATEGORIES AS LUXURY, NON-ESSENTIAL OR CACM-PRODUCED CAN LEAD TO THE INCLUSION OF INDIVIDUAL PRODUCTS WHICH ARE NOT IN REALITY LUXURY, NON-ESSENTIAL OR CACM-PRODUCED. FOR EXAMPLE, ACCORDING TO A LOCAL IMPORTER, WOODEN FURNITURE AND ACCESSORIES CARRY A CET OF 30 PERCENT, GROSS WEIGHT DUTY OF US\$0.50 PER KILY, SURCHARGE OF 30 PERCENT, SELECTIVE IMPORTS DUTY OF 30 PERCENT, ETC., OSTENSIBLY TO PROVIDE TARIFF PROTECTION TO CACM FURNITURE MANUFACTURERS. PARADOXICALLY FURNITURE HARDWARE (ACCESSORIES SUCH AS DRAWER HANDLES, RAILS, ETC.) IS NOT MANUFACTURED IN CACM AND MUST BE IMPORTED UNDER THE SAME HIGH DUTY REGIME AS FURNITURE. WHEN THIS HAPPENS A SALVADORAN IMPORTER CAN APPEAL TO THE MINISTRY OF FINANCE BUT SINCE THERE

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IS NO SPECIFIC OFFICE TO HANDLE SUCH APPEALS, THE APPEAL USUALLY DIES A LINGERING DEATH. HENCE LOCAL IMPORTERS WOULD LIKE TO SEE A SPECIAL OFFICE SET UP WITH AUTHORITY TO ADJUDICATE SUCH APPEALS WITHIN THE MINISTRY OF FINANCE.

12. THE FOLLOWING SAMPLE CALCULATIONS OF CHARGES ASSESSED ON A TV SET (LUXURY OR NON-ESSENTIAL CONSUMER GOOD) AND ON A TRACTOR (CAP-

ITAL GOOD) IMPORTED INTO EL SALVADOR FROM THE U.S. ILLUSTRATES BOTH THE INCIDENCE OF DUTY AND OTHER CHARGES AS WELL AS COMPARATIVE TREATMENT.

TV SET WITH A GROSS WEIGHT OF 25 KGS. (IN DOLLARS)

TRACTOR WITH A GROSS WEIGHT OF 2000 KGS. (IN DOLLARS)

INVCOICE VALUE (CIF 100.00 10,000.00

COMMON EXTERNAL TARIFF-CET 40.00 700.00

GROSS WEIGHT DUTY 37.50 NONE

SURCHARGE 23.25 NONE

SELECTIVE IMPORT DUTY 53.25 NONE

CONSULAR FEE 1.00 30.00

INTEREST FORGONE ON 100 PERCENT DEPOSIT HELD FOR MINIMUM 3

MONTHS 3.03 NONE

TOTAL COST: CIF INCOIVE VALUE PLUS

ASSESSED DUTIES \$258.03 \$10,730.00

TOTAL ASSESSED DUTIES AND

OTHER CHARGES 158.03 730.00

TOTAL ASSESSED DUTIES AND OTHER CHARGES AS PERCENT OF CIF

INVOICE VALUED 158 PERCENT 7 PERCENT

13. IN TERMS OF NEGOTIATING PRIORITIES, LOCAL IMPORTERS OF U.S. GOODS SINGLE OUT THE 100 PERCENT PRIOR DEPOSIT AS THE MOST ONEROUS TRADE RESTRICTION THEY CONFRONT, INASMUCH AS WHEN CREDIT IS TIGHT, AS IT USUALLY IS, THE SIMPLY CANNOT GET THE MONEY TO DEPOSIT, WITHOUT BORROWING AT EXORBITANT INTEREST RATES. THE NEXT MOST RESTRICTIVE BARRIERS ARE, RESPECTIVELY, THE SELECTIVE IMPORT DUTIES, THE CET, THE GROSS WEIGHT DUTY, THE SURCHARGE AND, FINALLY, THE CONSULAR FEE.

14. BEGINNING OF LIMITED OFFICIAL USE. HOWEVER EL SALVADOR'S STATUS AS A MSA COUNTRY (IMPORTS ALL PETROLEUM); THE FACT THAT ITS TRADE RESTRICTIONS ARE BASICALLY DESIGNED TO LIMITED OFFICIAL USE

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MINIMIZE LUXURY AND NON-ESSENTIAL IMPORTS, IN ORDER TO FACILITATE CAPITAL GOODS IMPORTS; AND THE FACT THAT ITS TRADE RESTRICTIONS, FOR THE MOST PART, CARRY THE CACM SEAL OF APPROVAL (AND SUPPORT); APPEAR TO US TO CONSTITUTE A FORMIDABLE OBSTACLE TO THE NEGOTIATION OF A MEANINGFUL EASING OF EL SALVADOR'S TRADE RESTRICTIONS. THE U.S. NEGOTIATING POSITION VIS A VIS EL SALVADOR IS, IN OUR VIEW, WEAKENED BY THE FACT THAT U.S. CONCESSIONS ON TROPICAL PRODUCTS IN THE MTN WOULD PROBABLY NOT BE OF MAJOR TRADE INTEREST TO EL SALVADOR. COFFEE ENTERS DUTY FREE AND OTHER TROPICAL PRODUCTS ON CENTRAL AMERICAN LIST WHICH EL SALVADOR EXPORTS ARE ON GSP LIST.

15. IN VIEW OF THE ABOVE, THE EMBASSY RECOMMENDS A SELECTIVE ASSAULT ON EL SALVADOR'S NATIONAL REGIME OF TRADE

RESTRICTIONS WITHIN THE TROPICAL PRODUCTS NEGOTIATIONS
GEBINNING WITH (A) THE PHASED ELIMINATION
OR REDUCTION OF THE 100 PERCENT PRIOR IMPORT DEPOSIT REQUIRE-
MENT; (B) ESTABLISHMENT OF AN APPEALS OFFICE WITHIN THE MINISTRY
OF FINANCE WITH AUTHORITY TO ADJUDICATE THE QUESTIONABLE CLASSIFI-
CATION OF AN INDIVIDUAL PRODUCT AS LUXURY, NON-ESSENTIAL OR CACM-
PRODUCED AND (C) ELIMINATION OF THE CONSULAR FEE. WE BELIEVE THAT
THE US EFFORT TO REDUCE THE PRTECTIVE IMPACT OF THE CACM
TARIFF WILL HAVE TO BE CARRIIED OUT ON A CENTRAL AMERICAN WIDE
BASIS, RATHER THAN THROUGH NEGOTIATIONS WITH INDIVIDUAL COUNTRIES.
HOWEVER, EFFORTS TO INFLUENCE INDIVIDUAL GOVERNMENTS TO
SUPPORT A REDUCTION OF CACM BARRIERS SHOULD NOT BE RULED OUT.
1976 MAY BE A PARTICULARLY PROPITIOUS YEAR IN WHICH TO NEGOTIATE
CACM CONCESSIONS INASMUCH AS CACM'S SECRETARY GENERAL FOR
INTEGRATION, SIECA, HAS REPORTEDLY ANNOUNCED PLANS FOR A GENERAL
REVIEW AND RESTRUCTURING OF CACM TARIFF POLICY TO TAKE PLACE
SOME TIME IN 1976.
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